BASIC RATES TRAINING

JOYCE L. . TRIGG
Pricing FSR

BASIC RATES TRAINING

- Definitions
- How rates are developed
- Application of rates
- Indirect rate proposals
- Requirements
- Direct rates

What Are Indirect / Overhead Rates?

- Method for pro-rating or allocating certain expenses for pricing/billing
- Cover expenses that are not directly identifiable to a final cost objective (not a direct cost)
- there is a causal and beneficial relationship to the final cost objective
- usually a percentage but can be an hourly rate or a factor.
- Rate covers a period of time -- 1 yr.

DEFINITIONS

- Direct costs
- Indirect costs
- Allocation base
- Pool
- Direct rates
- Indirect rates

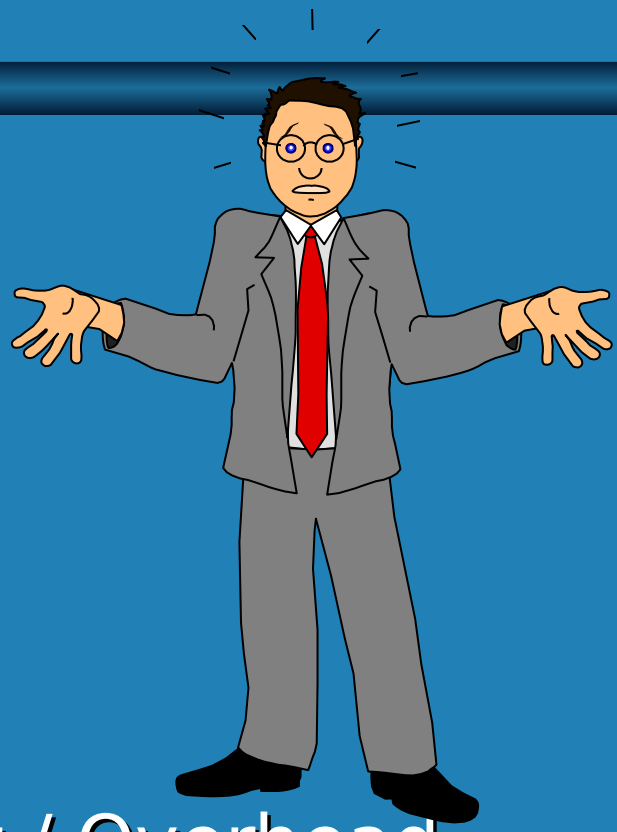
DEVELOPMENT OF RATES

- Cost centers
- Pools
- Bases
- Types of costs in various rates
- Exercise

Impact on Pricing

- Indirect / Overhead Costs are reflected on Cost Based Pricing Proposals subject to negotiations
- Overhead Costs can be as much as 80% of the total costs proposed on a single procurement
- Nationwide, DOD estimates that 53% of total costs are indirect
- Overhead Costs have a very large impact on pricing

Rates vary between companies



- Different products
- Different operations
- Differences in size
- Differences in labor
- Differences in facilities
- These all affect Indirect / Overhead Rates plus much more

Rates vary between companies

- It is hard to compare the overhead rates from company to company
- Some small companies have one labor overhead rate
- Some companies have overhead rates for each department or operation
- Acquisitions and mergers can have a significant impact

APPLICATION OF RATES

- Application to contract costs
- Relationship of development to application
- Over- and under-applied rates
  - What they are
  - Consequences

INDIRECT RATE PROPOSALS

- Relationship between
  - sales forecast
  - base
  - indirect costs
- Evaluating the business base
- Inverse relationship between base and rate

INDIRECT RATE PROPOSALS (continued)

- Fixed Costs
- Variable Costs
- Semi-variable costs
- Too high or too low?

REQUIREMENTS

- Homogeneous pools
- Causal/beneficial relationship
- No double counting
- No unallowable costs

Some Direct / Indirect Costs / Expenses that can be confusing

- Supervision (everyday duties can be both direct and indirect effort)
- Tool Crib items(usually indirect)
- Tooling (if it is directly associated with a particular contract it can be charged direct. This includes both recurring and nonrecurring tooling. Tooling for general usage such as maintenance work would be an overhead expense.)
- Travel Costs (direct if for a particular contract, indirect if for benefit of one base)

DIRECT RATES

- Direct Labor Rates
  - Starting Point
  - Turnover
  - Escalation
  - Other allowable increases
- Cost Estimating Relationships

CONTINUOUS RATE AGREEMENTS

- Direct or Indirect Rates
- Adjusted whenever necessary
- Takes the place of once a year proposal, review and negotiation cycle
- In the beginning takes more time, but saves time in the long run
- Increases accuracy, especially for fixed price contracts

SUMMARY

- What we covered
  - Definitions
  - Development and application of rates
  - What to review and what is required
  - Direct rates
- Desired benefits of this training
  - Greater understanding
  - Basic ability to evaluate proposed rates